

Macro scenario - Chile



June 1, 2026

Growth Deferred, Not Denied

- ▶ The macro scenario reflects a near-term growth slowdown amid transitory inflation pressures, with policy set to remain on hold as authorities balance both forces. We now expect GDP growth to moderate to 1.5% in 2026 (-0.6pp), weighed down by weak activity momentum, a soft labor market, and external headwinds, before accelerating to 3.1% in 2027 (+0.3pp) as an improving investment pipeline gains traction. Inflation will remain elevated in the short term (4.5% this year, +0.2pp), driven primarily by higher energy prices, but underlying pressures remain contained and expectations anchored, supporting a gradual convergence back toward target over the medium term. In this context, the BCCh is likely to maintain a cautious, data-dependent stance, keeping the policy rate at 4.5% for an extended period as it navigates the trade-off between inflation risks and a still-fragile growth environment.

Political buzz

President José Antonio Kast reshuffled his cabinet but left the core economic team intact. The move appears aimed at improving policy communication and reasserting control over the security agenda, a central electoral pillar and a key concern for the population. Notably, this was the fastest cabinet reshuffle on record, underscoring a sense of urgency.

Pro-growth reform advances to the Senate. The Lower House approved the National Reconstruction bill with only minor amendments, preserving its core objective of boosting potential growth mainly through tax measures and regulatory simplification, among others. Passage was relatively swift in contrast to past reform episodes, supported by the governing coalition's influence across key committees and the broader chamber, despite it lacking a formal majority. While the coalition has secured relevant positions in Senate committees, it still falls short of a majority, implying the need for negotiation to secure approval. Authorities are targeting passage ahead of the 2027 budget process (September 30), though this timeline looks tight. Amendments in the Senate would trigger a Mixed Committee, increasing the risk of a longer legislative discussion.

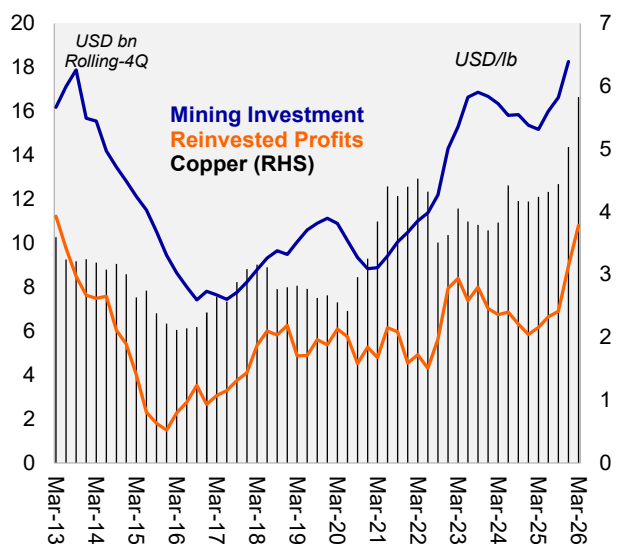
Muted growth contrasts with an upbeat investment outlook

Activity data point to a soft near-term macro backdrop, with limited underlying momentum. GDP contracted 0.5% YoY in 1Q26 and declined 0.3% QoQ/SA, as a sharp deterioration in net exports more than offset still-resilient domestic demand. Export volumes fell on weaker copper and agricultural shipments, while imports were supported by capital and energy goods. Sequential dynamics also weakened, with non-mining activity broadly flat and gross fixed capital formation contracting 3.8% QoQ/SA after strong gains in previous quarters. High-frequency indicators suggest the softness in overall activity is stretched into 2Q, and with statistical carry-over close to zero. Slack in the labor market, evidenced by weak hiring indicators and rising job destruction, together with the deceleration of real wage growth, should limit private consumption growth.

Yet the investment outlook continues to improve and remains the key offset to near-term weakness. On an annual basis, gross fixed investment expanded 3.2% in 1Q, supported by robust machinery and equipment investment, consistent with firm capital imports. More importantly, forward-looking indicators point to a strengthening pipeline: the Corporation of Capital Goods survey revised its five-year investment outlook up sharply to USD 87.7bn, with a heavy concentration in mining, energy, and infrastructure. Administrative policy efforts have aimed at unlocking investment, leading to a surge in project submissions

and approvals in environmental regulatory bodies, both at record highs early in the administration. Together, these elements suggest that while activity will likely remain subdued in the near term, improving investment dynamics should support a growth acceleration over the medium term.

Reinvestment of profits bodes well for investment cycle



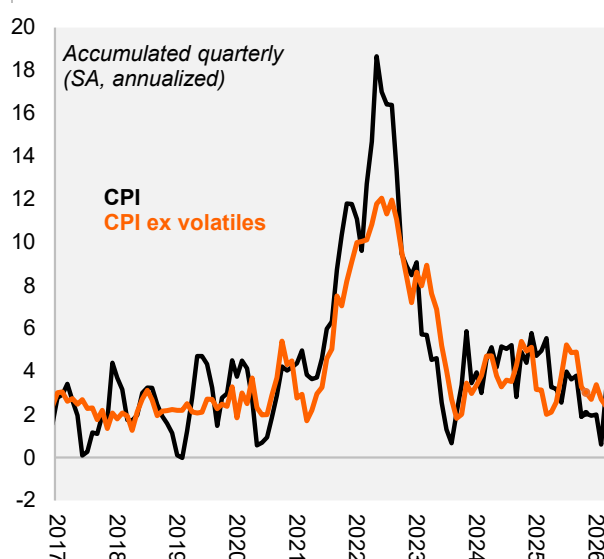
Source: BCCh, Itaú

External accounts have improved markedly, supported by favorable terms-of-trade and strong mining exports. The current account posted a USD 1.9 billion surplus in 1Q26 (1.9% of GDP), reversing last year's deficit, with the rolling balance narrowing to just -0.6% of GDP and fully financed by FDI inflows. The adjustment has been driven by a widening goods trade surplus, as mining exports surged on higher prices (although volumes dropped), more than offsetting still-resilient imports. While rising oil prices are set to push the energy bill higher in coming quarters, widening the oil trade deficit, the strength of copper and broader mining exports should continue to underpin external balances. From an FX perspective, the CLP remains sensitive to global risk sentiment and oil price volatility, particularly given Chile's status as a net energy importer, which has amplified currency swings amid Middle East developments. However, the broader backdrop remains supportive. Improving investment prospects, a stronger pipeline of mining and infrastructure projects, and policy efforts to enhance business conditions should support the currency. Coupled with structurally strong demand for copper, linked increasingly to global AI development and electrification trends, the peso is seen to have scope for appreciation once external volatility subsides.

Headline inflation rebounds; Expectations anchored

Inflation dynamics are currently shaped by a mix of short-term external shocks and still-contained underlying pressures. Headline CPI rose 1.3% MoM in April, driven overwhelmingly by a sharp increase in fuel prices which alone contributed nearly 1pp to the monthly print, pushing annual inflation up to 4.0% (2.4% in February). At the margin, annualized inflation accelerated to 8% over the quarter, primarily reflecting the fuel price shock. However, underlying inflation remains more benign: core CPI increased 0.5% MoM and 3.4% YoY, with ex-food-and-energy measures at 2.8% YoY, suggesting limited second-round effects so far. Indeed, services inflation remains relatively contained in sequential terms, and the data point to a still-fragile demand backdrop, consistent with labor market slack and weak activity. Looking ahead, after the jump in inflation expectations that followed the swift hike in domestic fuel prices, one-year ahead survey-based inflation expectations declined to 3.3% in May from 4.0% in April, while two-year expectations continue to remain at the BCCh's 3% target. This supports the view that recent price pressures are largely transitory and driven by energy costs, rather than a broader inflationary process. The next inflation prints will be key in assessing the breadth and depth of potential second round effects of the fuel price spike. The Chilean approach to the oil price shock was bold and brave, and is already starting to pay-off.

A headline inflation surge



Source: INE, Itaú

A delicate balancing act

The BCCh is navigating a complex policy trade-off, balancing rising short-term inflation pressures against a weak activity backdrop and elevated global uncertainty. In the end-April policy meeting, the Board unanimously held the policy rate at 4.5%, maintaining a “meeting-by-meeting” approach amid heightened uncertainty, particularly around the evolution of the Middle East conflict and its impact on oil prices. While headline inflation is set to rise in the near term, the underlying inflation process remains relatively contained, and the magnitude and persistence of external shocks are still unclear. At the same time, weaker-than-expected activity, and a fragile labor market argue against a premature tightening. The ex-ante real policy rate sits in the central bank’s neutral real range (0.75-1.75%), suggesting limited immediate pressure to tighten despite rising headline inflation. The minutes of the April meeting confirm that the decision to hold reflects a cautious, data-dependent stance, though with a clear hawkish tilt. Some Board members considered a 25bp hike, highlighting concern that prolonged commodity shocks could de-anchor inflation expectations, underscoring the asymmetric risks around the policy path. Separately, the Board unanimously raised the CCyB from 0.5% of RWAs to the neutral level of 1%, to be implemented over a 24-month period.

A challenging fiscal update

While fiscal expenditure was restrained during 1Q26, the fiscal revenue performance continued to fall well short of expectations. Public debt rose to 42.6% of GDP, while liquid fiscal assets declined sharply, with Treasury cash falling to around USD 600 million, very low by historical standards. Demonstrating swift progress on this year’s spending cuts will be critical for restoring fiscal credibility. Upon taking office the administration instructed ministries to reduce expenditure by 3% (approximately USD3 billion), alongside an additional USD1 billion in cross-ministry cuts. Together, these measures would amount to spending reductions of roughly 1.2% of GDP this year. Delivering on these cuts would help offset weak revenue dynamics in the near term and the expected shortfall from the tax reform bill ahead. The Budget Office has reported cuts of roughly USD 2 billion as of the end of April. The Kast administration’s first Public Finance Report raised this year’s financing needs and deficit, mainly due to spending that had not been accounted for in the previous report. In addition, the medium-term

forecasts project gross public debt rising above the “prudent level” of 45% of GDP by 2028. More details can be accessed [here](#).

Rebalancing the growth path

We revised our 2026 GDP forecast down to 1.5% (from 2.1%), reflecting weaker-than-expected activity at the start of the year, low statistical carry-over, and a still-fragile labor market that will weigh on consumption. External headwinds, particularly tighter financial conditions and higher oil prices, reinforce the soft near-term outlook. However, we upgrade 2027 growth to 3.1% (from 2.8%), as improving investment dynamics are projected to take hold. A stronger project pipeline, alongside policy efforts to unlock private investment, should support a more sustained recovery once current cyclical headwinds fade.

We now expect a narrower current account deficit of 1.0% of GDP (from 1.7%), driven by a stronger-than-expected 1Q outturn and an upward revision to our copper price assumptions. While higher oil prices will push import values higher and widen the energy deficit, this is likely to be offset by resilient mining exports, underpinned by favorable price dynamics. The CLP will likely remain volatile in the short term, sensitive to global risk and oil price swings, but the medium-term outlook has improved. We expect the USDCLP to appreciate toward 850 by end-2027, supported by an investment-led recovery, strengthening external balances, and sustained demand for copper linked to structural global trends.

We revised our 2027 inflation forecast up by 0.2pp to 4.5%, reflecting a higher oil price path. Near-term inflation will remain elevated, driven primarily by energy costs, though underlying inflationary pressures remain contained. Looking ahead, we continue to expect convergence toward the Central Bank’s 3% target over the following year, as supply shocks dissipate, demand conditions remain soft, and a stronger CLP helps contain imported goods inflation.

Despite the upward revision to inflation, we maintain our baseline scenario of an unchanged policy rate at 4.5% over the forecast horizon. We believe the appropriate policy response is to remain on hold for a prolonged period, closely monitoring inflation expectations and pass-through dynamics. Should policy-relevant expectations drift above target or cost pressures become more entrenched, rate hikes would become a tangible option. In the meantime, the current

stance preserves flexibility and credibility, while acknowledging that risks to rates remain tilted to the upside.

As the likelihood of an El Niño episode gains strength, the Chilean economy typically experiences higher rainfall in central and southern

regions. Damage to crop production, both locally and globally, adds to inflation pressures in food prices, yet at a gradual pace. On activity, agriculture, forestry, and fishing are usually hit, while heavy rains can disrupt mining logistics and construction, weighing on GDP in the short run. However, improved hydropower generation can lower marginal energy costs and boost

value-add growth, while post-event reconstruction and infrastructure spending may provide a temporary offset. Overall, while Chile is less exposed than some regional peers, El Niño episodes still introduce additional volatility to the inflation outlook and near-term growth path.

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Chile | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	2.1	0.7	2.8	2.5	1.5	2.1	3.1	2.8
Nominal GDP - USD bn	301	336	329	357	405	404	446	441
Population (millions)	19.8	20.0	20.1	20.2	20.3	20.3	20.4	20.4
Per Capita GDP - USD	15,202	16,843	16,392	17,680	19,915	19,882	21,804	21,564
Unemployment Rate - year avg	7.9	8.7	8.5	8.5	8.5	8.3	8.2	8.0
Inflation								
CPI - %	12.8	3.9	4.5	3.5	4.5	4.3	3.0	3.0
Interest Rate								
Monetary Policy Rate - eop - %	11.25	8.25	5.00	4.50	4.50	4.50	4.50	4.50
Balance of Payments								
CLP / USD - eop	851	879	996	901	860	880	850	860
Trade Balance - USD bn	3.6	13.8	20.8	23.8	28.0	23.0	25.0	22.0
Current Account - % GDP	-8.9	-3.1	-1.2	-1.2	-1.0	-1.7	-1.4	-1.9
Foreign Direct Investment - % GDP	6.2	5.7	4.0	4.1	5.2	4.5	4.9	4.1
International Reserves - USD bn	39.2	46.4	44.4	49.5	57.0	57.0	65.0	65.0
Public Finance								
Primary Balance - % GDP	2.1	-1.6	-1.8	-1.7	-1.2	-0.9	-0.3	-0.3
Nominal Balance - % GDP	1.1	-2.4	-2.9	-2.8	-2.4	-2.0	-1.5	-1.5
Gross Public Debt - % GDP	37.9	39.4	41.8	41.5	42.9	42.0	43.8	42.5
Net Financial Position - % GDP	-31.8	-34.4	-37.3	-37.5	-39.1	-38.0	-40.1	-38.5
Net Public Debt - % GDP	20.5	23.2	26.0	26.5	28.1	26.7	29.1	26.9

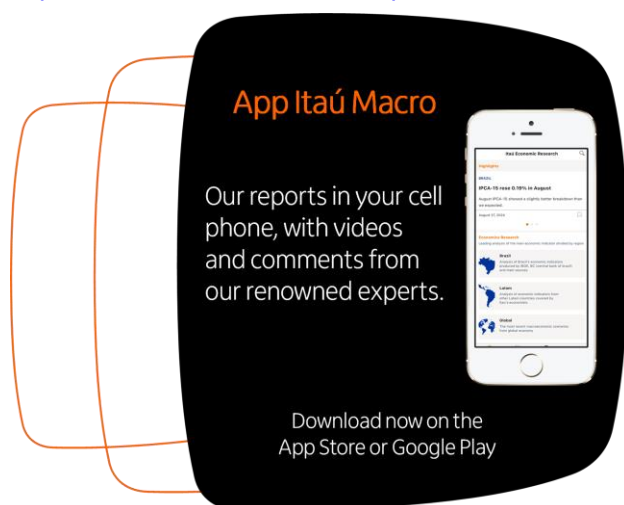
Source: IMF, Bloomberg, BCCh, INE, Haver and Itaú

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